

THE DEPUTY GOVERNOR

FOREIGN EXCHANGE AND GOLD MARKETSFriday, 23rd October 1981

Another hectic week on the exchanges gave way to the traditional quiet Friday. The dollar remained fundamentally firm, while losing some ground in the wake of a sizeable fall in new orders for durable goods in the US. Sterling was again very comfortable against all currencies, although little business of note was described. The ERI edged up from 87.8 to 87.9.

The pound advanced by $1\frac{1}{4}$ cents to 1.8292 yesterday in New York, where the dollar turned considerably softer following publication of orders for durable goods in September. This morning the dollar continued easier on the early exchanges but quickly resumed its firmer tendency although Euro-dollar deposits were slightly offered for choice. Sterling opened at 1.8272 and mirrored the dollar's fluctuations throughout the day. A modest official seller and a brace of bank buyers of similar size were seen in the early morning but thereafter activity was minimal. Sterling traded comfortably around 1.8225 for most of the morning. The improvement in the German trade account was widely discounted and did little to halt the recovery of the dollar, which reached its best levels as New York opened to read of a 1.2% increase in the US Consumer Price Index in September. Sterling dipped to 1.8157 but recovered to close in a very quiet afternoon at 1.8225. The dollar's late decline was occasioned by a grudging but significant easing in Federal Funds, which opened at $15\frac{3}{8}\%$ and had breached 15% by London's close. Similarly, three-month Euro-dollars were a touch easier at $16\frac{5}{16}\%$ while the sterling deposit was $\frac{1}{8}\%$ firmer at $16\frac{11}{16}\%$. The three-month forward margin moved to $3/16\%$ discount for sterling, but this still left a useful covered differential in London's favour.

The pound was unchanged in Germany (4.14 $\frac{1}{2}$) but $\frac{1}{8}\%$ cheaper in France (10.38 $\frac{1}{2}$) and $\frac{3}{8}\%$ easier in Switzerland (3.44 $\frac{1}{2}$). The dollar was on balance softer in all these places at 2.2735, 5.70 and 1.8880 respectively. The Swiss again bought \$50mn. and swapped in \$30mn. as their franc advanced to almost 0.83 against the deutschemark. EMS was all but fully stretched at London's close between the Danish krone (7.2975) and deutschemark. The Danes and Dutch bought deutschemarks worth \$7mn. and \$9mn. respectively. The Italians took in \$49mn. and the French \$55mn. and \$60mn.-worth of deutschemarks. The Bundesbank spent \$130mn. and \$26mn.-worth of French francs. The yen firmed up to 233.12.

Gold was again very sluggish but, after fixing at \$433.50 and \$432.50, the metal ran into substantial selling in New York and the price touched \$429.25 before closing around \$430.

Operations:	Market	+	\$7mn.
	Interest	+	6
	Mauritius	-	6
	Government	-	6
	Sundries	-	1

	Overnight	-	\$2mn.
--	-----------	---	--------

23rd October 1981.

JGH